



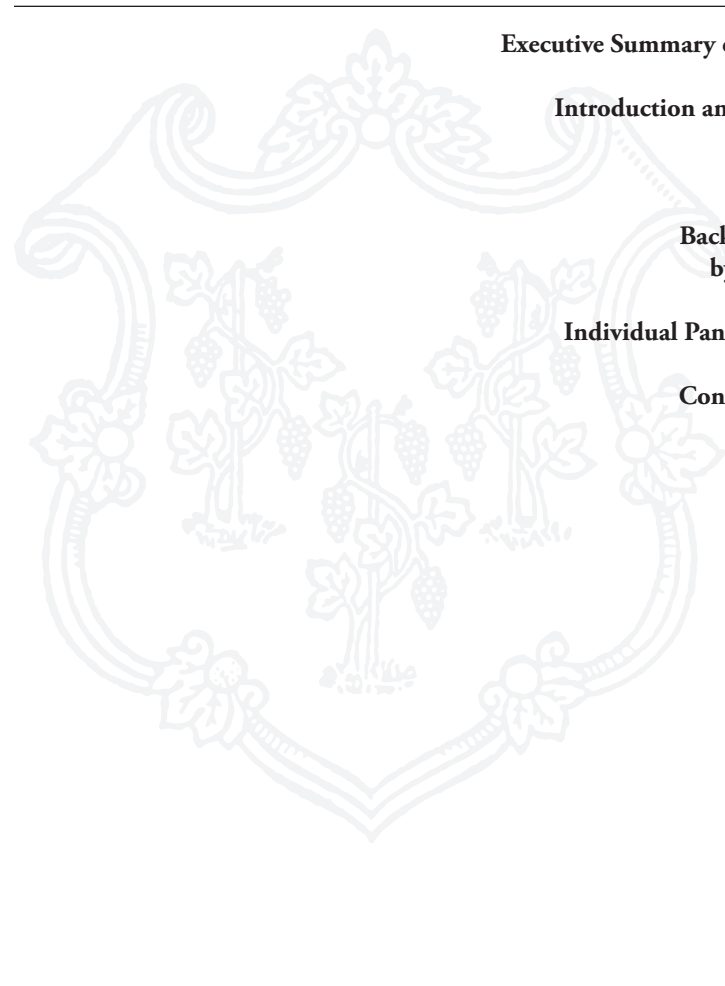
Speaker's Panel

ELECTRIC RATE RELIEF PANEL REPORT

& EXECUTIVE SUMMARY OF RECOMMENDATIONS



Table of Contents

	Executive Summary of Recommendations	x
	Introduction and Panel Membership	1
	Historic Context	2
	Background Information by Sector Presentation	3
	Individual Panel Recommendations	7
	Conclusion & Next Steps	8

Executive Summary of Recommendations
ELECTRIC RATE RELIEF PANEL REPORT

Connecticut House Speaker Christopher G. Donovan convened a panel of informed stakeholders that met in January and February 2010. The Panel was charged with investigating Connecticut's high electric rates. After a series of meetings, the following recommendations to lower electric rates were offered by individual stakeholders.

I. Procuring Power

- » Revise electric companies' procurement policies to encourage flexibility and efficiency.
- » Reduce time period now required in laddered contracts in the procurement of power for standard service to take advantage of market price declines.
- » Establish a public power authority to procure power, incentivize new plants, review and approve the IRP, and issue bonds to finance new plants as necessary.

II. Retail Competition

- » Adopt a code of conduct for aggregators and brokers in the retail competitive market.
- » End retail competition for residential customers; maintain a competitive retail market for business customers.

III. Energy Efficiency, Renewable Energy, and Environmental Policies

- » Maintain the CT Energy Efficiency Fund without diverting monies for other purposes.
- » Support targeted efficiency funding that considers rate impacts.
- » Authorize performance contracting for municipalities.
- » Place a moratorium on new energy surcharges until the economic climate significantly improves.
- » Require DPUC and DEP to study the most appropriate mix of renewable energy resources.
- » Ensure all new environmental requirements and energy efficiency programs are economically feasible, cost-effective and provide appropriate incentives.

IV. New Generation and Transmission

- » Repower aging fossil fuel plants to burn natural gas rather than oil or coal.
- » Develop generation to be sold on a "cost of service" basis, including renewable generation.
- » Encourage investment in diverse power resources; expand incentives for distributed generation.
- » Review statutory restrictions and conduct cost-benefit analyses of new in-state nuclear power plants.

V. Rate Reductions

- » Develop an affordable and accessible low-income rate.
- » Impose an assessment on highest profiting instate generators and use the revenue to offset electricity rates.

VI. Energy Assistance

- » Increase effectiveness and accessibility of energy assistance programs.
- » Supplement federal funds for energy assistance with appropriated state funds.
- » Improve outreach mechanisms to increase awareness of and participation in energy assistance programs.

1 INTRODUCTION

In response to increasing electric rates in Connecticut and the growing disparity between rates in Connecticut and neighboring states, the Speaker of the House of Representatives, Christopher G. Donovan, convened a Rate Relief Panel to review the approach Connecticut has taken in determining electric costs. The Panel met on January 4 and 11 and February 1, 2010. Participants presented background information and legislative recommendations to provide electric rate relief.

PANEL MEMBERSHIP

Panel members represented those overseeing the purchase of electric generation and interests impacted by high electric rates.

- A. **Legislators:** Rep. Vickie Nardello, Chair; Rep. Henry Genga; Rep. Susan Johnson; Rep. Matt Lesser; Rep. James O'Rourke; Rep. Lonnie Reed; and Rep. Sean Williams
- B. **Department of Public Utility Control**, represented by its Chair, Kevin DelGobbo, and Vice-Chair, John Betkoski
- C. **CL&P**, represented by Jeff Butler and Jim Shuckerow
- D. **UI**, represented by Alan Trotta
- E. **Connecticut Municipal Electric Energy Cooperative**, represented by Julie Cammarata
- F. **Manufacturers' Alliance of Connecticut**, represented by Jeff Gaudiosi
- G. **Connecticut Business and Industry Association**, represented by Kevin Hennessey
- H. **Chamber of Commerce**, represented by Mike Nicastro
- I. **Small businesses**, represented by Ray Graczyk
- J. **Connecticut Conference of Municipalities**, represented by Gian-Carl Casa
- K. **Attorney General's Office**, represented by Rich Kehoe and John Wright
- L. **Office of Consumer Counsel**, represented by Joseph Rosenthal, Richard Sobolewski and Victoria Hackett
- M. **AARP**, represented by John Erlinghauser
- N. **Low income consumers**, represented by Shirley Bergert of Connecticut Legal Services, Inc.

In 1998, Connecticut passed legislation restructuring its electric industry that resulted in the investor-owned utilities (Connecticut Light & Power (CL&P) and United Illuminating (UI)) selling their generation plants to private owners.¹ Although approximately half of the states considered restructuring, only fourteen currently have retail competition.²

Under the restructured model, electricity is purchased on a wholesale market as a commodity and then sold at retail to residential, industrial and commercial customers. In Connecticut, the rules governing the wholesale market are determined by ISO New England, a regional transmission organization, and FERC (Federal Energy Regulatory Commission).

Historically, Connecticut electric rates have been among the highest in the country. In 1998, Connecticut's electric rates were the sixth highest in the country, exceeded by Maine, New Hampshire, New York, Vermont and Hawaii.³ For the first nine months of 2009, Connecticut's electric rates were the highest in the country with the exception of Hawaii. For the first nine months of 2009, Connecticut's average rate was 17.5 cents per kWh, compared to the national average of 9.82 cents.⁴

The gap between Connecticut electric rates and the national average has widened considerably in the last five years. In 2004 Connecticut's electric rates were 34.8% above the national average, while in 2009 they were 74.3% above the national average. The energy portion of Connecticut's electric rates has increased 118% since 2000.⁵ In 2009 New England's average rate was 15.64 cents per kWh, or 59.3% above the national average. In 2009, New York's average rate was 16.08 cents per kWh, or 63.7% above the national average.⁶

Neighboring states with lower rates have different approaches than Connecticut. New York (through the New York Power Authority) and New Hampshire (through its electric companies) continue to own electric generation plants, Vermont chose not to restructure, Massachusetts uses a different method for purchasing electricity generation, and Maine-based generators bid directly into the procurement process in that state.⁷

In 1999, Vermont, which did not restructure, had an average rate of 12.19 cents per kWh, compared to 9.96 cents in Connecticut. Since then Vermont's average rate

has remained relatively flat at 12.79 cents per kWh, 27% lower than Connecticut's average rate.⁸

New Hampshire, also served by Connecticut's Northeast Utilities, retained utility-owned generating plants in rate base and has experienced an 11.9 % increase in rates since 1999, compared to Connecticut's 75% increase.⁹

Parts of Connecticut receive electricity from seven municipal utilities owned by the towns of Groton, Norwich, Jewett City, East Norwalk, South Norwalk, Wallingford and Bozrah, servicing 72,000 customers. These municipal utilities – which are not part of CL&P or UI-- chose not to participate in the competitive market. They also own 140 MW of generation. The average gap between investor-owned electric utility rates in Connecticut and rates of the municipal utilities has been rising since restructuring.¹⁰ The gap is now 3.5 cents per kWh in 2009, whereas in 2000 the gap was only 1.5 cents per kWh.¹¹

High electric rates increase expenses for Connecticut's businesses and directly impact their ability to provide and maintain jobs. The decline in manufacturing can be tied to, among other things, the high cost of energy "The high cost of industrial energy means that Connecticut manufacturers are at a competitive disadvantage by paying electric costs 145.9% higher than the national average."¹²

Residential ratepayers have less money to spend due to high electric rates and low income ratepayers are especially burdened by having to spend a higher portion of their income on a necessary commodity.

3 BACKGROUND INFORMATION BY SECTOR PRESENTATION

The full presentations are available
at www.housedems.ct.gov/RateRelief

A. Regulatory:

Department of Public Utility Control (DPUC) Commissioners Kevin DelGobbo and Jack Betkoski began by describing DPUC's role in regulating the various types of utility companies. With regard to services that are still regulated, they noted that DPUC must balance the public's right to safe, adequate and reliable utility service at reasonable rates with the provider's right to a reasonable return on its investment. They also noted that DPUC also must address the adequacy, reliability, safety, and affordability of service and enforce consumer service protection laws.

They described the components of electric rates, including the generation service charge (the cost of power purchased by the electric companies) which accounts for about half of the total electric bill. They next described the process by which the companies procure power for their customers. By law, the companies must purchase overlapping contracts for this power. This mechanism partially insulated customers from the rapid increase in wholesale prices a few years ago, but also means it will take several years for customers to benefit from the subsequent decline in wholesale prices.

The commissioners described the status of the competitive market, noting that 16.8% of all customers have chosen a competitive supplier. DPUC has posted the rates charged by suppliers on its website.

In addition to setting rates for regulated companies, DPUC approves electric company procurements for standard service; certifies Class I, II, and III renewable energy projects; and periodically adjusts the generation service and systems benefits charges, among other components of electric bills.

B. Electric Utilities:

1. CL&P and UI: Representatives of the utilities made a joint presentation. They described the history of standard service and stated that the goals of the electric restructuring legislation were to provide access to electric service at stable rates while promoting development of a competitive retail market. They argued that DPUC rules have limited the options that electric companies have in procuring power for standard service and that this has contributed to high rates. They noted that natural gas prices are the principal factor affecting the

price of electricity and that rates in Connecticut have closely tracked electricity prices in Massachusetts. They stated that four factors are likely to affect future electric prices: the price of natural gas, generating capacity costs, the costs of renewable energy, and federal requirements addressing greenhouse gas emissions. They noted that natural gas prices are likely to be stable and that New England currently has adequate generation capacity, which could moderate electric prices.

II. Connecticut Municipal Electric Energy Cooperative:

Julie Cammarata described CMEEC and the municipal utilities it serves, which account for 4% to 6% of Connecticut's electric demand. She stated that CMEEC's primary role is to procure power at the lowest reasonable cost for the customers of the municipal utilities. She observed that CMEEC benefits from its tax-exempt status and is able to enter into long-term contracts. She noted that nationally the rates charged by public power utilities are below those charged by investor-owned electric companies. In Connecticut municipal utility rates for all types of customers are lower than the rates charged by the electric companies. The current average residential bill for a residential customer using 800 kilowatt-hours per month ranged from \$101.60 for customers of the Wallingford municipal utility to \$148.25 in Bozrah, compared to an average of \$168.15 for Connecticut Light and Power residential customers.

C. Business:

I. Connecticut Industrial Energy Consumers: In addition to Panel member presentations, CIEC, which consists of major manufacturing companies, submitted written comments. The comments observed that Connecticut consumers currently pay the highest electricity prices in the contiguous United States and the second highest prices in the country. The average consumer in Connecticut currently pays nearly \$0.18 per kWh, 75% more than the national average, and the state's industrial consumers pay more than double the national average price for electricity.

CIEC asserts that these high energy costs are a significant contributing factor to the decline in Connecticut's manufacturing and commercial sectors. Over the past decade, Connecticut's manufacturing sector employment declined by more than 27%, resulting in a loss of more than 65,000 jobs. Similarly, the state's retail trade sector has suffered significant contraction over the past decade. During this time, Connecticut experienced a loss of

3 BACKGROUND INFORMATION BY SECTOR PRESENTATION

more than 16,000 jobs from its retail trade sector - a decline of nearly 9%.

II. **Manufacturers' Alliance of Connecticut:** Jeff Gaudiosi from MAC noted that the vast majority of large electric company customers with demand over 500 kilowatts (approximately 90%) have chosen competitive suppliers rather than remaining on last resort service provided by CL&P and UI. He noted that the high rates charged for last resort service also affect customers served by suppliers, since these suppliers set their prices to be somewhat below last resort rates. He stated that he was not able to precisely determine the economic impact of high rates, but that it is significant.

III. **Connecticut Business and Industry Association:** Kevin Hennessey of CBIA discussed a survey the association had recently conducted. The survey found that 97% of the approximately 1,000 CBIA members who responded to the survey liked having the option of choosing a competitive supplier. The survey also found that energy costs remain a concern for CBIA members. He stated that CBIA staff have found that companies have become more sophisticated in understanding their options and how the market works. They also have found that companies are interested in using energy efficiency as a way of controlling their energy costs and have some interest in renewable energy.

IV. **Chamber of Commerce:** Mark Nicastro, president of the Central Connecticut Chamber of Commerce noted that the chamber represents a wide variety of businesses and other organizations. A major concern for his members is the certainty of costs. Members have also expressed concern regarding their ability to understand competing offers from suppliers. Nicastro also noted that the growth of information technology firms may increase electric demand.

V. **Small business:** Ray Graczyk indicated that the cost of electricity cost him one job in his business. He expressed concern that the impacts of electric costs affect the ability to hire and maintain employees.

D. Consumer:

I. **Connecticut Conference of Municipalities:** Gian-Carl Casa from the CCM noted that municipalities are subject to the same energy cost pressures as other customers. He noted that energy is a substantial cost for municipalities – for example Waterbury spends \$2.7 million per year in energy costs for its town facilities and \$4 million in energy costs for the Board of Education.

Casa noted that CCM serves as an aggregator for 130 municipalities, school districts, and related entities to provide them the lowest possible rates. He also observed that CCM's members are becoming more sophisticated about the energy market. He noted that performance contracting is another tool for reducing municipal energy costs that is explicitly authorized in other states but not Connecticut.

II. **Attorney General's Office:** Rich Kehoe described several facets of the wholesale electric market. In this market, generators whose production costs are above market rates but whose power is needed to ensure system reliability receive reliability-must run payments. These payments are negotiated between the generator and the Independent System Operator-New England (ISO-New England) based on the generator's cost of service and are subject to approval by the Federal Energy Regulatory Commission. All of the contracts expire in June 2010.

Another component of the market is the forward capacity market (capacity is the availability of a power plant to serve the market). ISO-New England determines the market's daily capacity requirements. Kehoe believes this process may reduce wholesale prices when the capacity market is competitive, as it is now.

Kehoe described ISO-New England's Market Rule 1, which determines how energy prices are set in the spot market. Under this rule, ISO-New England estimates the amount of energy needed in the next day and meets this amount by choosing the lowest cost bids first. However, all of the successful bidders receive the price bid by the last successful bidder.

Kehoe also indicated that electric rates are affected by increases in ISO-New England's administrative costs and higher charges for additional transmission lines and other infrastructure improvements.

III. **Office of Consumer Counsel:** Joe Rosenthal and Richard Sobolewski began by describing OCC's responsibilities. They then compared Connecticut's electric rates to those in the rest of the country, noting that our rates are second only to Hawaii and higher than other New England states. They noted that standard service rates had declined slightly as of January 2010 as some high-priced wholesale electric contracts had expired. They also noted the close relationship between natural gas prices and electric rates and

3 BACKGROUND INFORMATION BY SECTOR PRESENTATION

anticipated that natural gas prices should be stable in the foreseeable future, potentially reducing the volatility of electric rates.

Rosenthal and Sobelewski discussed the components of electric rates, noting that Connecticut's rates for transmission and distribution, as well as the power itself, are higher than the national average. Among the reasons they offered for these high rates are the fact that Connecticut does not use coal as a generating fuel, congestion on the transmission system which necessitated building new transmission lines, the generally high cost of doing business in the state, and the law that restructured the state to permit retail competition.

iv. **AARP:** John Erlingheuser from AARP noted that energy costs have increased at twice the rate of inflation, as measured by the overall consumer price index. He presented detailed information about the characteristics of households receiving energy assistance, including a finding that 24% of such households use medical equipment that requires electricity. He also noted that seniors pay a larger share of their income for energy costs and are more susceptible to death and illness due to extreme weather than younger customers.

v. **Low Income Consumers:** Shirley Bergert from Connecticut Legal Services, Inc. described the devastating impact of high energy costs on low-income customers. She noted that New England has the country's fastest growing energy affordability gap (the difference between what a low-income household can afford to pay for energy and its actual energy bills) and that the gap is growing faster than in the rest of New England. She estimates that the average low-income household faces an annual shortfall of \$2,400 after accounting for energy assistance.

The following are all of the recommendations generated by panelists. Individual recommendations reflect their diversity of views.

A. Procuring Power:

- I. **Flexibility in power procurement:** Revise electric companies' procurement to permit them to buy power components separately (e.g., baseload, intermediate and peaking power), contract directly with generators, and also permit long-term contracting.
- II. **Reduce laddering period:** Reduce time period now required in laddered contracts (purchase of overlapping multi-year supply contracts) in the procurement of power for standard service (service provided to small and medium size customers who do not choose a competitive supplier) to take advantage of market price declines.
- III. **Standard Service Pilot Project:** allow electric companies to purchase power for a portion of standard service without the current restrictions on purchasing to determine if rates could be lowered under this scenario and to provide comparison to current model.
- IV. **Public Power Authority:** Establish a public power authority to:
 1. procure power for small and medium size customers;
 2. provide incentives for new plants whose power would be sold to electric companies on a cost of service basis;
 3. review and approve the integrated resources plan (IRP);
 4. issue bonds, with Bond Commission approval, to finance new plants required under the IRP; and
 5. supervise implementation of conservation plans on a multi-fuel basis.

B. Retail Competition

- I. **Retail competitor code of conduct:** Adopt a code of conduct for participants in the retail electric market (competitive suppliers, aggregators, and brokers).
- II. **Residential Customers:** End retail competition.
- III. **Business Customers:** Maintain a competitive retail market.

- IV. **Education:** Expand educational programs by the DPUC to assist businesses to operate successfully as consumers in the competitive market, addressing credit and contract issues.

C. Energy Efficiency, Renewable Energy and Environmental Policies:

- I. **CT Energy Efficiency Fund:** Maintain this ratepayer fund without diverting to other purposes.
- II. **Expand efficiency funding:** Based on findings of the draft 2010 IRP, expand funding for efficiency in a targeted manner to avoid increasing rates.
- III. **Performance based contracting:**
 1. **Energy efficiency performance contracts for municipalities:** Authorize municipalities to enter into energy efficiency performance contracts.
 2. **Pilot performance contracting:** Allow electric companies to establish pilot performance contracting programs to fund additional investments in energy efficiency and renewable energy from future savings on electric bills.
- V. **Interruptible rates and demand response programs for large industrial customers:** Maintain and expand the use of interruptible delivery rates and demand response programs.
- V. **Moratorium on new energy surcharges:** Establishing a moratorium on new energy surcharges, and examine reducing energy surcharges and levies, and assessments, until the economic climate significantly improves.
- vi. **Re-evaluate the renewable portfolio standard (RPS):** Periodic review of the RPS is needed to ensure Connecticut purchases an appropriate level of power from renewable resources.
- VII. **Mix of renewable energy resources:** Require the DPUC and the Department of Environmental Protection to study current and emerging renewable energy programs and develop a strategy to achieve the most appropriate mix of resources.
- VIII. **Renewable energy rate cap:** Cap the maximum rate increase resulting from renewable energy, allocated among technologies the legislature seeks to subsidize.
- IX. **Long-term contracts for renewables:** Allow or require

electric companies to seek bids for long-term fixed rate contracts for renewable power, and enter into them if the DPUC determines this is the least-cost option for meeting the RPS.

- x. **Impact of environmental requirements:** Balance the cost of proposed modifications of environmental related requirements with their impact on energy prices, system reliability, the ability of existing business to continue operating economically, and the attraction of new businesses to the state.
- xi. **Cost effective energy efficiency:** Ensure all existing energy efficiency, demand response and emissions reduction programs and policies are cost-effective and provide appropriate incentives. Evaluate the cumulative impacts of these programs and initiatives on system reliability and energy prices.

D. New Generation and Transmission:

- i. **Repowering aging fossil fuel plants:** Repower existing older fossil fuel power plants in the state to burn natural gas rather than oil or coal.
- ii. **Cost of service generation:**
 - 1. Develop generation to be sold on a cost of service basis, either through new power plants or by entering long-term contracts with existing plants.
 - 2. Develop renewable generation to meet the RPS and to be sold on a cost of service basis.
- iii. **Power supply diversity:** Adopt policies that encourage investment in diverse power resources.
- iv. **Distributed generation:** Continue and expand incentives for distributed generation.
- v. **Nuclear power:**
 - 1. Review statutory restrictions on new nuclear power plants.
 - 2. Study costs and benefits of new nuclear power plants in the state.
- vi. **New transmission projects:** Evaluate support of proposed transmission projects in Connecticut and neighboring states to ascertain whether they will provide long-term energy cost savings and environmental benefits.

E. Rate Reductions:

- i. **Low income rate:** Develop an affordable and accessible low income rate.
- ii. **Rate relief assessment:** Impose an assessment on highly profitable in-state generators and use the revenue to reduce electric rates.

F. Energy Assistance:

- i. **Earlier energy assistance planning:** Develop and approve the energy assistance plan earlier in the year to permit greater coordination with low income utility protections and payment programs.
- ii. **Year-round energy assistance application process:** Allow applications for energy assistance on a year-round rather than seasonal basis to facilitate coordination with utility programs.
- iii. **State supplementation of federal energy assistance funding:** Appropriate state funds to supplement the federal funds available for energy assistance.
- iv. **Energy assistance self-certification:** Allow self-certification for energy assistance program eligibility.
- v. **Outreach:** Develop effective outreach to increase participation of vulnerable households in energy assistance and conservation programs.

6 CONCLUSION

It is difficult to pinpoint exact savings to Connecticut ratepayers if the Panel's recommendations are adopted. However, their adoption will bring Connecticut's electric rate system into closer alignment with best practices in other states, our region and nationwide. It is reasonable to expect that similar rate structures will lead to similar rate reductions and yield savings to ratepayers.

NEXT STEPS

The Energy and Technology Committee will raise a bill on electric rate relief that includes the individual recommendations listed above. The Committee will conduct a public hearing to allow interested parties to comment on the recommendations.

- ¹ P.A. 98-28.
- ² Electricity Price Trends in Connecticut Compared to Price-Regulated States, p. 11, Marilyn Showalter, Power in the Public Interest, Jan. 28, 2008 (<http://www.ppinet.org/news.php>). For extensive information regarding electric costs across the United States, go to: <http://www.eia.doe.gov/fuelelectric.html>. For a resource that identifies every state with restructuring, including up-to-date information on the status of deregulation, go to: www.eia.doe.gov/cneaf/electricity/page/restructuring/restructure_elect.html.
- ³ Average Retail Price of Electricity to Ultimate Customers by End-Use Sector by State, p. 65, EIA, March 1999.
- ⁴ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, Office of Legislative Research (OLR), Connecticut General Assembly (CGA), Jan. 20, 2010.
- ⁵ DPUC Panel presentation, January 4, 2010.
- ⁶ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ⁷ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ⁸ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ⁹ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ¹⁰ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ¹⁰ Connecticut's High Electric Rates and the Legislative Response (2010-R-0015), p. 4, Kevin McCarthy, OLR, CGA, Jan. 20, 2010.
- ¹⁰ The Impact of the Loss of Manufacturing Jobs On Connecticut's Economy, p. 3, Connecticut Industrial Energy Consumers (CIEC), August 2009. CIEC includes: United Technologies, Sikorsky, Pratt & Whitney, Price Choppers, Hamilton Sundstrand, Olin Brass, Praxair and Ahlstrom.